

CMP: ₹ 165

Target: ₹ 210 (27%)

Target Period: 12 months

BUY

December 28, 2020

Macro levers (ADD, CV revival) conducive, reiterate buy

The Commerce Ministry has concluded its study thereby proposing to extend anti-dumping duty (ADD) on imports of carbon black (used for rubber applications) into India; largely from China and Russia. The ministry opined that imports without ADD will cause substantial injury to the domestic carbon black industry. The study proposes to impose a duty of US\$494 per tonne on carbon black origination from China and US\$36.2 per tonne on carbon black originating from Russia and other countries. The said proposal is likely to be approved by the Finance Ministry with final notification expected by December end. Extension of ADD helps protect sales volumes of domestic carbon black players with consequent better operational efficiencies and is not a medium to increase prices to import parity levels. It is positive for all carbon black players, especially Phillips Carbon Black (PCBL) given its market leadership domestically (market share of ~35%+).

CV revival on the cards, voluminous growth lies ahead!

Unlike other automobile segments viz. 2-W, PV that are more linked to discretionary spend and have witnessed near secular growth over the past decade, CV demand is more cyclical and is governed by economic cycles. In the recent past, post FY19, the Indian CV space has been adversely impacted by several factors like revised axle load norms, efficient goods transport due to GST, slowing domestic economic activity and tighter financing availability due to NBFC crisis. Covid disruption from March 2020 onwards further added to industry woes with FY21E volumes in the M&HCV space expected to be somewhat equal to volumes clocked in FY09 i.e. pushed back ~12 years. The good news, however, is that the industry finally seems to be bottoming out with M&HCV prints improving MoM for most industry players amid an upturn in freight movement along with government focus on road building and infra spends. In truck segment especially, industry players have started to clock positive YoY prints with buses segment expected to catch up soon as Covid concerns subsidies and state government finances improve. This is expected to lead to strong double digit growth in volumes for the domestic CV space that would result in higher tonnage growth for tyre players given the bulky nature of tyres used in CVs. Consequently, it is also positive for carbon black players leading to healthy volume growth prospects, thereby benefitting PCBL. Given the improved demand outlook, we upgrade our sales volume estimates for FY21-22E and build in FY23 numbers. We build in carbon black sales volume CAGR of ~12% in FY21-23E to 4.75 lakh tonne by FY23E.

Valuation & Outlook

PCBL has a healthy B/S (limited leverage), capital efficient business model (RoCE > 15%) and generates robust cash flow from operations (CFO yield > 15%). We maintain our **BUY** rating on the stock with a revised target price of ₹ 210 (₹ 180 earlier) valuing it at 10x P/E on FY23E EPS of ₹ 21.0. Conservatively, as of now, we have not built in any volumes from greenfield capex under implementation as the company awaits regulatory approvals.

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	3,528.6	3,243.5	2,481.1	2,973.4	3,204.8	13.7%
EBITDA	622.8	464.9	410.0	561.2	627.3	23.7%
EBITDA Margins (%)	17.6	14.3	16.5	18.9	19.6	
Net Profit	388.5	283.5	213.9	320.9	362.3	30.2%
EPS (₹)	22.5	16.5	12.4	18.6	21.0	
P/E	7.3	10.0	13.3	8.9	7.8	
RoNW (%)	23.6	16.8	11.5	15.3	15.3	
RoCE (%)	22.8	16.1	12.5	16.6	16.7	

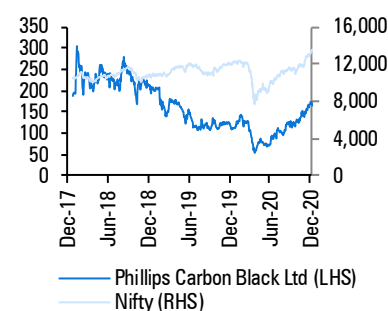
Source: Company, ICICI Direct Research

Phillips Carbon Black Limited

Particulars

Stock Data	₹ crore
Market Capitalization	2843
Total Debt (FY20)	617
Cash and Cash Eqv (FY20)	111
Enterprise Value	3348
52 week H/L (₹)	178 / 54
Equity Capital	34.5
Face Value	₹ 2

Price Performance



Key negative risk to our call

- Delay in CV cycle revival & muted CB demand
- Pressure on carbon black pricing & consequent margins due to surplus capacity domestically

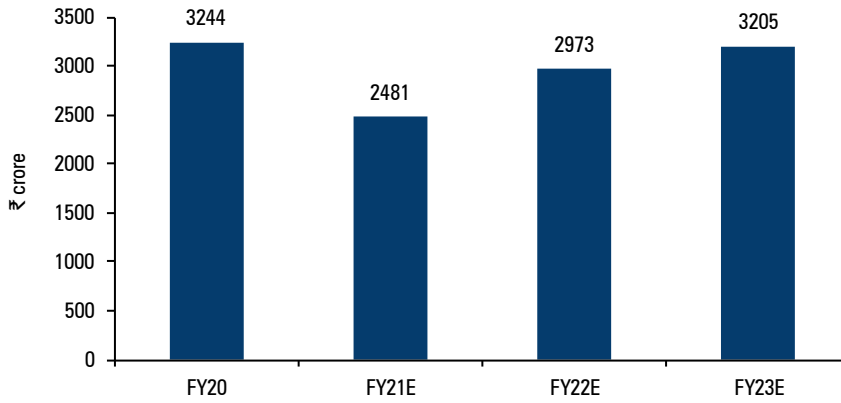
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Financial story in charts

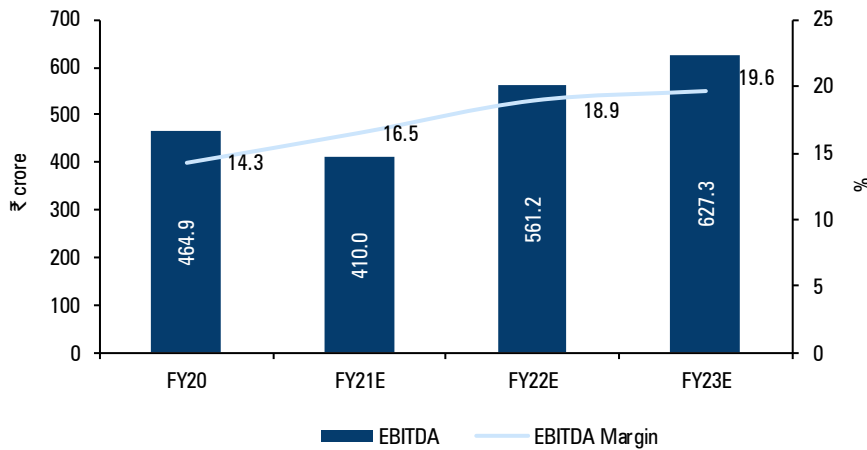
Exhibit 1: Topline trend



Post Covid impacting FY21E, revenues are seen growing at a CAGR of 13.7% in FY21-23E, building in ~12% carbon black sales volume growth in the aforesaid period

Source: Company, ICICI Direct Research

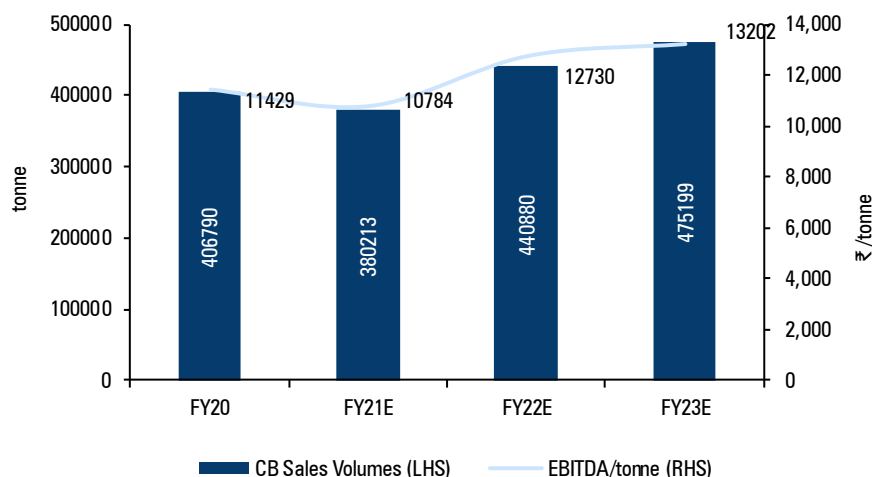
Exhibit 2: EBITDA and EBITDA margins trend



EBITDA is seen growing at a CAGR of 23.7% over FY21-23E. Margins are seen improving to 19.6% by FY23E, amid greater share of speciality grade carbon black and better sweating of existing assets (operating leverage benefits)

Source: Company, ICICI Direct Research

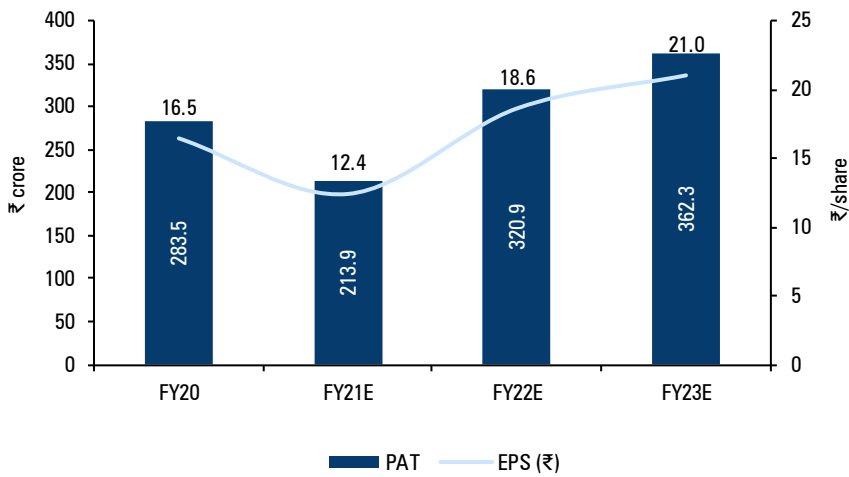
Exhibit 3: Carbon black sales volume, EBITDA/tonne trend



Sales volumes are expected to grow ~16% YoY to 4.4 lakh tonne in FY22E (3.8 lakh tonne in FY21E) and further grow ~8% to 4.75 lakh tonne in FY23E. EBITDA/tonne is seen improving to ~₹ 13,200 by FY23E vs. ~₹ 11,000 levels clocked in FY21E

Source: Company, ICICI Direct Research

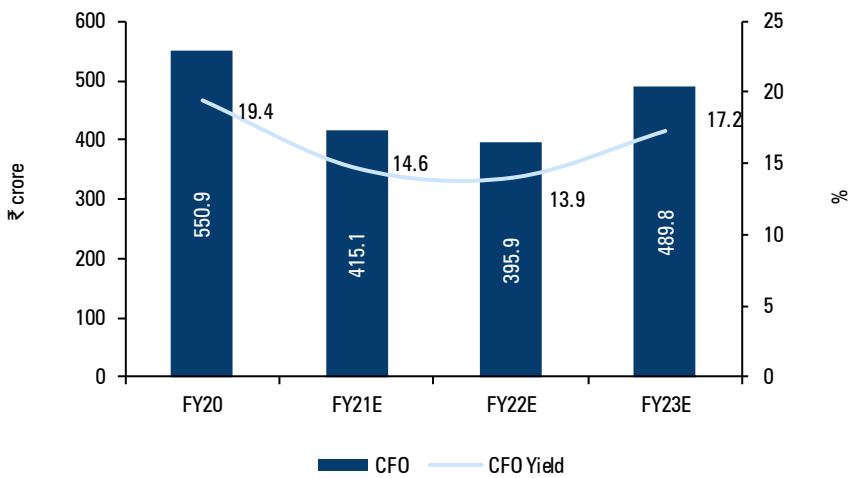
Exhibit 4: PAT and EPS trend



Post Covid impacting FY21E, PAT is expected to grow at a CAGR of ~30% over FY21-23E to ₹ 362 crore by FY23E. PCBL is expected to clock an EPS of ₹ 18.6 in FY22E & ₹ 21.0 in FY23E

Source: Company, ICICI Direct Research

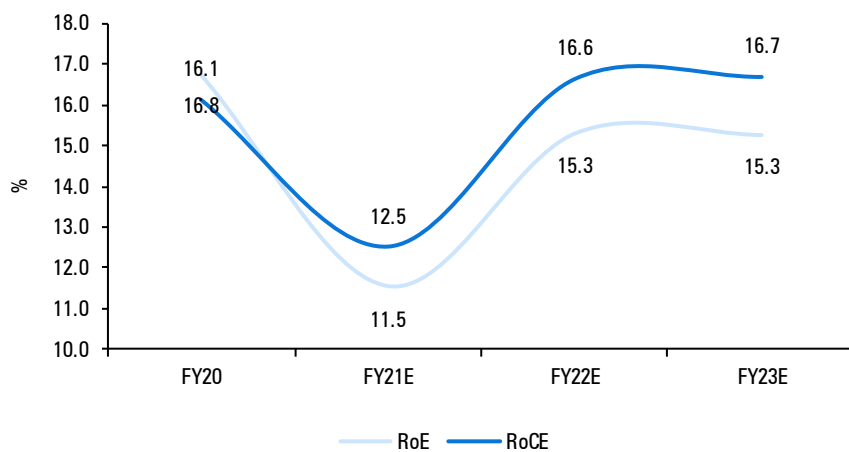
Exhibit 5: CFO and CFO yield trend



Robust cash flow generation is USP of PCBL with the company offering healthy cash flow yield of ~15%+. It will help PCBL fund its greenfield capex largely from internal accruals. Net debt is seen remaining within comfortable levels, going forward

Source: Company, ICICI Direct Research

Exhibit 6: Return ratios trend



PCBL has a capital efficient business model with RoE & RoCE healthy at ~15%+ levels (excluding Covid impacted FY21E)

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Net Sales	3243.5	2481.1	2973.4	3204.8	
Other Operating Income	0.0	0.0	0.0	0.0	
Total Operating Income	3243.5	2481.1	2973.4	3204.8	
Growth (%)	-8.1	-23.5	19.8	7.8	
Raw Material Expenses	2,189.5	1,583.3	1,843.5	1,971.0	
Employee Expenses	134.4	136.2	152.4	164.2	
Selling Expense	129.7	99.2	118.9	128.2	
Other Operating Expense	325.0	252.4	297.3	314.1	
Total Operating Expenditure	2,778.6	2,071.1	2,412.1	2,577.5	
EBITDA	464.9	410.0	561.2	627.3	
Growth (%)	-25.3	-11.8	36.9	11.8	
Depreciation	92.4	113.5	126.0	136.3	
Interest	45.9	42.5	38.8	40.6	
Other Income	24.1	13.7	15.0	14.1	
PBT	350.8	267.7	411.4	464.5	
Total Tax	67.3	53.8	90.5	102.2	
PAT	283.5	213.9	320.9	362.3	
Growth (%)	-27.0	-24.5	50.0	12.9	
EPS (₹)	16.5	12.4	18.6	21.0	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	283.5	213.9	320.9	362.3	
Add: Depreciation	92.4	113.5	126.0	136.3	
(Inc)/dec in Current Assets	177.3	132.7	-183.7	-86.4	
Inc/(dec) in CL and Provisions	-48.1	-87.4	94.0	36.9	
Others	45.9	42.5	38.8	40.6	
CF from operating activities	550.9	415.1	395.9	489.8	
(Inc)/dec in Investments	207.1	-100.0	25.0	-5.0	
(Inc)/dec in Fixed Assets	-362.5	-120.0	-300.0	-400.0	
Others	101.6	0.0	0.0	0.0	
CF from investing activities	-53.9	-220.0	-275.0	-405.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-179.6	-100.0	0.0	50.0	
Interest & Dividend paid	-190.6	-94.2	-116.3	-126.8	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	-95.1	0.0	0.0	0.0	
CF from financing activities	-465.3	-194.2	-116.3	-76.8	
Net Cash flow	31.7	0.9	4.6	8.0	
Opening Cash	79.6	111.3	112.3	116.9	
Closing Cash	111.3	112.3	116.9	124.8	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Liabilities					
Equity Capital	34.5	34.5	34.5	34.5	
Reserve and Surplus	1,657.2	1,819.4	2,062.8	2,338.9	
Total Shareholders funds	1691.7	1853.9	2097.2	2373.4	
Total Debt	616.7	516.7	516.7	566.7	
Deferred Tax Liability	254.9	254.9	254.9	254.9	
Minority Interest / Others	104.3	104.3	104.3	104.3	
Total Liabilities	2667.5	2729.7	2973.1	3299.3	
Assets					
Gross Block	1977.6	2347.6	2453.2	2503.2	
Less: Acc Depreciation	337.7	451.2	577.2	713.5	
Net Block	1639.9	1896.4	1875.9	1789.6	
Capital WIP	305.6	55.6	250.0	600.0	
Total Fixed Assets	1,945.5	1,952.0	2,125.9	2,389.6	
Investments	176.7	276.7	251.7	256.7	
Inventory	326.2	305.9	366.6	395.1	
Debtors	588.2	509.8	611.0	658.5	
Loans and Advances	91.6	70.1	84.0	90.5	
Other Current Assets	52.7	40.3	48.3	52.0	
Cash	111.3	112.3	116.9	124.8	
Total Current Assets	1,170.0	1,038.3	1,226.7	1,321.0	
Current Liabilities	528.5	441.8	529.5	570.7	
Provisions	85.9	85.1	91.4	87.1	
Current Liabilities & Prov	614.4	526.9	620.9	657.8	
Net Current Assets	555.7	511.4	605.8	663.2	
Others Assets	-10.3	-10.3	-10.3	-10.3	
Application of Funds	2667.5	2729.7	2973.1	3299.3	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per share data (₹)					
EPS	16.5	12.4	18.6	21.0	
Cash EPS	21.8	19.0	25.9	28.9	
BV	98.2	107.6	121.7	137.7	
DPS	7.0	3.0	4.5	5.0	
Cash Per Share (Incl Invst)	16.7	22.6	21.4	22.1	
Operating Ratios (%)					
EBITDA Margin	14.3	16.5	18.9	19.6	
PAT Margin	8.7	8.6	10.8	11.3	
Inventory days	36.7	45.0	45.0	45.0	
Debtor days	66.2	75.0	75.0	75.0	
Creditor days	59.5	65.0	65.0	65.0	
Net Working Capital days	43.4	55.0	55.0	55.0	
Return Ratios (%)					
RoE	16.8	11.5	15.3	15.3	
RoCE	16.1	12.5	16.6	16.7	
RoIC	16.5	11.8	16.8	19.1	
Valuation Ratios (x)					
P/E	10.0	13.3	8.9	7.8	
EV / EBITDA	7.2	7.8	5.7	5.2	
EV / Net Sales	1.0	1.3	1.1	1.0	
Market Cap / Sales	0.9	1.1	1.0	0.9	
Price to Book Value	1.7	1.5	1.4	1.2	
Solvency Ratios					
Debt/EBITDA	1.3	1.3	0.9	0.9	
Debt / Equity	0.4	0.3	0.2	0.2	
Current Ratio	1.7	1.8	1.8	1.8	
Quick Ratio	1.2	1.2	1.2	1.2	

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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